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CORWIN F. OVERTON

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DIRECTOR OF PUBLIC RELATIONS
STONE & WEBSTER, INCORPORATED
90 BROAD STREET, NEW YORK, N. Y. 10004
BOWLING GREEN 9-4224



**STONE &
WEBSTER
INCORPORATED**

1968 ANNUAL REPORT



**STONE &
WEBSTER**
INCORPORATED

ANNUAL REPORT FOR THE YEAR 1968

Engineering • Finance • Management Consulting

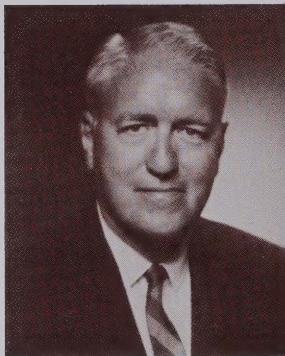


STONE & WEBSTER

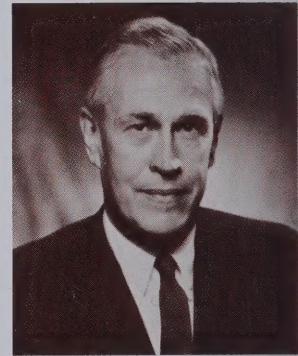
DIRECTORS



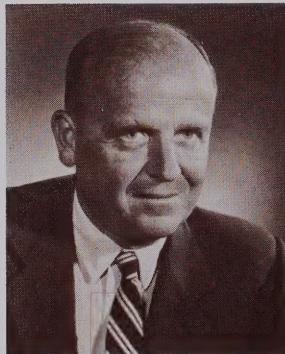
WHITNEY STONE
Chairman of the Board



RICHARD N. BENJAMIN
President



JOHN H. ALEXANDER
Partner
Mudge Rose Guthrie
& Alexander



J. PETER GRACE
President
W. R. Grace & Co.



HENRY U. HARRIS
Chairman of the Board
Harris, Upham & Co.,
Incorporated

OFFICERS

Chairman of the Board
WHITNEY STONE

President
RICHARD N. BENJAMIN

Vice Presidents
ASHTON G. ELDREDGE
WILLIAM E. HORWILL*

Secretary
FRANKLIN E. CONGER

Treasurer
WILLIAM M. EGAN

* Retired 12/31/68

INCORPORATED



LLOYD D. BRACE
*Former Chairman of the
Board*
The First National Bank
of Boston



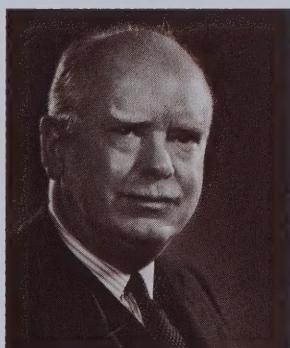
EDWARD C. BREWSTER
Trustee



HOWARD L. CLARK
Chairman of the Board
American Express Company



EDWARD L. LOVE
Consultant



JOHN W. MCKEE
Chairman of the Board
Stone & Webster Canada
Limited

TRANSFER AGENTS

STONE & WEBSTER SERVICE CORPORATION
BOSTON

THE CHASE MANHATTAN BANK, N.A.
NEW YORK

OFFICE: 90 Broad Street, New York, N. Y. 10004

REGISTRARS

THE FIRST NATIONAL BANK OF BOSTON
BOSTON

MANUFACTURERS HANOVER TRUST COMPANY
NEW YORK

The annual meeting of Stockholders is scheduled to be held on May 8, 1969, at 100 West Tenth Street, Wilmington, Delaware. Stockholders of record at the close of business on March 27, 1969, will be entitled to vote at this meeting. Proxies will be requested by the management, and it is expected that notice of such annual meeting, together with Proxy Statement and form of Proxy, will be mailed to Stockholders on or about April 3, 1969.

TO OUR STOCKHOLDERS AND EMPLOYEES:

The following report summarizes the activities of Stone & Webster, Incorporated and subsidiaries during 1968:

NET INCOME AND DIVIDENDS

1968 was another excellent year for the Stone & Webster organization. Consolidated net income in 1968 was \$10,556,000 compared to consolidated earnings of \$10,484,000 in 1967 before non-recurring gain. Based on the average number of shares of Capital Stock outstanding during each year, this was equivalent to \$2.63 per share in 1968 and \$2.56 per share in 1967. Consolidated net income for 1967, including the non-recurring gain of \$646,000, was \$11,130,000 or \$2.72 per share. The 10% income tax surcharge in 1968 amounted to 13¢ per share.

Contributing to the year's satisfactory performance were increased dividends from unconsolidated foreign subsidiaries and the sale of investment securities.

On December 20, 1968, the Board of Directors declared a quarterly dividend of 47½¢ per share, an increase of 2½¢ per share over the previous quarterly dividend. This dividend was paid on February 1, 1969 to stockholders of record at the close of business on January 10. If quarterly dividends are maintained at this rate, total dividends in 1969 will be \$1.90 compared to dividends of \$1.80 paid in 1968, an increase of 5.6%. This is the second successive year that dividends on Stone & Webster Capital Stock have been increased.

GROSS EARNINGS

Gross earnings in 1968 on a consolidated basis aggregated \$51,725,000, an increase of \$3,346,000 over the previous year. Gross earnings from most of our activities exceeded those of the previous year. Dividends received in 1968 from Stone & Webster Canada Limited, an unconsolidated foreign subsidiary, and increased dividends on our security holdings accounted for the increase in dividend and interest income. No dividends were received from Stone & Webster Canada Limited in 1967. Profit from sales of investment securities in 1968 also contributed to the increase in gross earnings. In the prior year, there were no sales of investment securities.



Stone & Webster Engineering Corporation
designed and constructed this 560,000 kilowatt
generating station at Sandwich on Cape Cod
for Canal Electric Company. This is the largest
single oil-fired unit in New England and is one
of six new major units or plants either completed
or under design and construction by
Stone & Webster for New England's
"Big Eleven Plus Power Loop".

Wisconsin Electric Power Company's new Valley Plant was designed and constructed by Stone & Webster Engineering Corporation to provide both electric power and heating steam for commercial, industrial and residential buildings. Special designs were provided to reduce pollution effects and help make this plant a good neighbor in downtown Milwaukee.

EXPENSES AND TAXES

Deductions from consolidated earnings for 1968 for expenses and other charges, except Federal income taxes, were \$36,285,000 compared to \$32,301,000 in 1967. Stone & Webster's major activities consist of the rendering of specialized services. A large staff of highly skilled and dedicated employees is essential in order to complete assignments which meet the Stone & Webster standards for excellence, and accordingly the major portion of our expenses is necessarily in the form of salaries and related costs. Included in 1968 expenses was \$1,213,000 paid into our Employee Retirement Plan, as compared with \$1,057,000 in 1967.

Cost of natural gas purchased for resale also is included in expenses and this cost increased in 1968 because of increased sales of gas and higher unit prices.

Federal income taxes totaling \$4,884,000 were provided for out of 1968 earnings, compared with \$5,594,000 in 1967. In 1968, relatively more income was of a class subject to lower taxes than in 1967.

ACQUISITION

An important step in Stone & Webster's expansion program was taken early in 1969 with the acquisition by Stone & Webster Securities Corporation, in exchange for treasury stock of Stone & Webster, Incorporated, of Hayden, Miller & Co., a Cleveland based investment banking and brokerage firm. Hayden, Miller was founded in 1903 and is now operating as a division of the Securities Corporation. Hayden, Miller has three offices in the Cleveland area, ten in other cities in Ohio, and offices in Detroit, Michigan and Winter Haven, Florida, with a sales force of 70 registered representatives.

The joining of this firm with the Securities Corporation will contribute substantial backing to its present position as a major underwriting firm. This is the third acquisition by the Securities Corporation in the past two years. In this period, its offices have increased from 9 to 28 and well over 100 registered representatives have been added to the organization.

Stone & Webster is constantly evaluating its future growth potential both from internal sources and through acquisition of related businesses.



STONE & WEBSTER ENGINEERING CORPORATION

Stone & Webster Engineering Corporation continued to play a prominent role in design and construction activities in the United States during 1968. The Corporation provided design, engineering and construction services for 70 major projects. Substantial new work was obtained during the year and consulting activities and report and appraisal work remained at a high level. Power projects included nuclear, oil, gas and coal-fired generating stations, pumped storage facilities and electrical transmission lines. Important process and industrial work was accomplished including petrochemical plants and paper mills.

Virginia Electric and Power Corporation has assigned to the Engineering Corporation the responsibility for engineering and construction of an 800,000 kilowatt nuclear unit, the first unit for the North Anna Power Station which will have an ultimate capability of 4,000,000 kilowatts. The Engineering Corporation presently is working on seven other large nuclear units in Maine, New York, Pennsylvania and Virginia. At year-end, nearly 40% of all electrical generating capacity undertaken by the Corporation represented nuclear facilities.

Public Utility District No. 1 of Chelan County, Washington, has engaged the Engineering Corporation to add four 120,000 kilowatt units to the Rocky Reach Hydroelectric Project on the Columbia River. The Corporation designed and supervised construction of Rocky Reach, which was completed in 1962, and with this new addition, it will be the largest hydroelectric project ever undertaken by the Engineering Corporation and one of the largest in the world.

Stone & Webster Engineering Corporation has been one of the country's leading designers and constructors of pumped storage facilities. In 1967, the Engineering Corporation completed the Cabin Creek pumped storage project for Public Service Company of Colorado, which received for this project the 1968 Edison Award, highest honor in the electric utility industry, for "an outstanding and successful undertaking." Work is underway on the 1,000,000 kilowatt Northfield Mountain pumped storage project for Northeast Utilities, and the engineering, design and construction of another 1,000,000 kilowatt pumped storage project was awarded to the Engineering Corporation in 1968 for Virginia Electric and Power Company's Marble Valley project.

The Engineering Corporation completed for National Organic Chemical Industries Limited, Bombay, the design and construction of India's first major petrochemical complex, and also completed the design and construction of two paper mills for affiliated companies of W. R. Grace & Co. in Peru. It is furnishing process design and advisory engineering services covering a Waste Heat Recovery Facility for Texas Eastman Company at Longview, Texas. Engineering and design work has continued on eight major petrochemical projects employing Stone & Webster's new USC (Ultra Selective Conversion) process. This process is designed to produce high yields of ethylene and other valuable olefins from a broad range of hydrocarbon feed stocks. The Corporation has commenced design and engineering work on a 150 million pounds per year phenol manufacturing plant and related offsite facilities for Georgia-Pacific Corporation's petrochemical complex at Plaquemine, Louisiana.

An additional segment of the Engineering Corporation's 1968 activities was the preparation of conceptual designs and basic process engineering for petrochemical plants and industrial facilities in Canada, Europe and the Middle East for which the detailed engineering and construction was performed by other members of the Stone & Webster group of companies.

The Engineering Corporation continues to assist the growth and development of the petrochemical industry in Japan. One plant was completed during 1968 and work proceeded on three other projects.



Stone & Webster Engineering Corporation designed and constructed for Sierra Pacific Power Company this 110,000 kilowatt Fort Churchill Station. Located in Nevada's Mason Valley, the new gas fired station has stand by oil burning equipment and is designed to permit ready conversion to coal, thus providing a flexibility which promises maximum economy in the face of fluctuating fuel costs.

This ethylene plant, the fourth designed by the Engineering Corporation for Sumitomo Chemical Company Limited, was expanded to its full capacity in 1968 at Ishihara City, Chiba, Japan. The Engineering Corporation is now designing a larger ethylene plant for Sumitomo for construction at the same location.

During 1968, the Engineering Corporation has taken on two consulting assignments directed toward the research and development of advanced nuclear concepts, one involving studies concerning advanced converter reactors and the other involving fast breeder reactors. Both concepts are related directly to the production of fuel during the life of the nuclear core of an electrical generating unit. These assignments promise to enhance our participation in the important developments that will affect nuclear power plant design in the future.

The Engineering Corporation has developed a new process for removing and recovering sulphur compounds from the stack gases of electrical generating plants, and converting these compounds into marketable sulphuric acid. The Corporation is seeking opportunities to apply the process on a commercial scale. The Corporation remained active in the fields of air pollution control, desalination of water, control of chemical pollutants such as organic wastes from petrochemical plants, radio-active waste disposal and water re-use techniques.

The total dollar value of properties appraised by the Corporation's appraisal division was significantly higher this year than in 1967. The preparation of reports by the Engineering Corporation for clients remained at a high level. The reports featured studies of future plans for increased generation, selection of nuclear versus fossil fuels, systems studies and estimates of relative cost.

STONE & WEBSTER ENGINEERING LIMITED

A number of important projects were completed in 1968 by Stone & Webster Engineering Limited. This organization, with over 500 employees in its London and associated office in Paris, provides comprehensive Stone & Webster services throughout Western Europe and the Near and Middle East. During 1968, major ethylene plants were completed for BP Chemicals (U.K.) Limited in Scotland and for Petrochim N.V. in Belgium. In addition, a large butadiene plant for BP Chemicals (U.K.) Limited in Scotland and a normal paraffins plant in England for British Petroleum Limited were completed. Work continues on other projects including the first ethylene plant in Turkey for Petkim and an ethylene plant for Esso Chemical A.B. in Sweden.

New work obtained during 1968 included, for BP Chemicals (U.K.) Limited, a large phenol plant to be erected in Scotland. Additionally, contracts were obtained for an edible oil processing plant for Van den Berghs & Jurgens Limited at Silvertown near London, a study for an additional gas stabilization plant for Compagnie Francaise des Petroles (Algerie) at Hassi Messaoud which will be handled in part by Stone & Webster Engineering S.A. in Paris, and an ethylene expansion project which will double the capacity of the plant now being completed for Petkim. Also, a large ethylene plant and a butadiene plant contract was secured for construction in the United Kingdom.



STONE & WEBSTER CANADA LIMITED

Demand for the services of Stone & Webster Canada Limited remained at a high level during 1968. The Canadian Company, located in Toronto with a staff of 300 employees, provides a full range of Stone & Webster services. New projects included the design and construction management of a new brewhouse for Molson's Brewery (Ontario) Limited, conceptual design, engineering and site studies for a new distillery in western Canada for Hiram Walker and Sons Limited and additional work in connection with the major expansion of Hiram Walker's Ontario distillery, and the construction of a 160" steel plate mill at Sault Ste. Marie, Ontario, for The Algoma Steel Corporation, Limited.

Work has continued on the design and construction of a 500 million pounds per year ethylene plant at Varennes, Quebec, scheduled for completion early in 1969 for Shawinigan Chemicals Limited, and on a number of engineering assignments for The Hydro-Electric Power Commission of Ontario. The Company continued to serve as project manager of the one million square foot area research library for the University of Toronto.

During the year the Company completed the engineering and construction management of three unusual projects. These were the McLaughlin Planetarium in Toronto for the University of Toronto, the total renovation of the Canadian Arena Company's indoor sports arena in Montreal, and, for a group of hospitals in Toronto, one of the largest central laundries ever constructed.

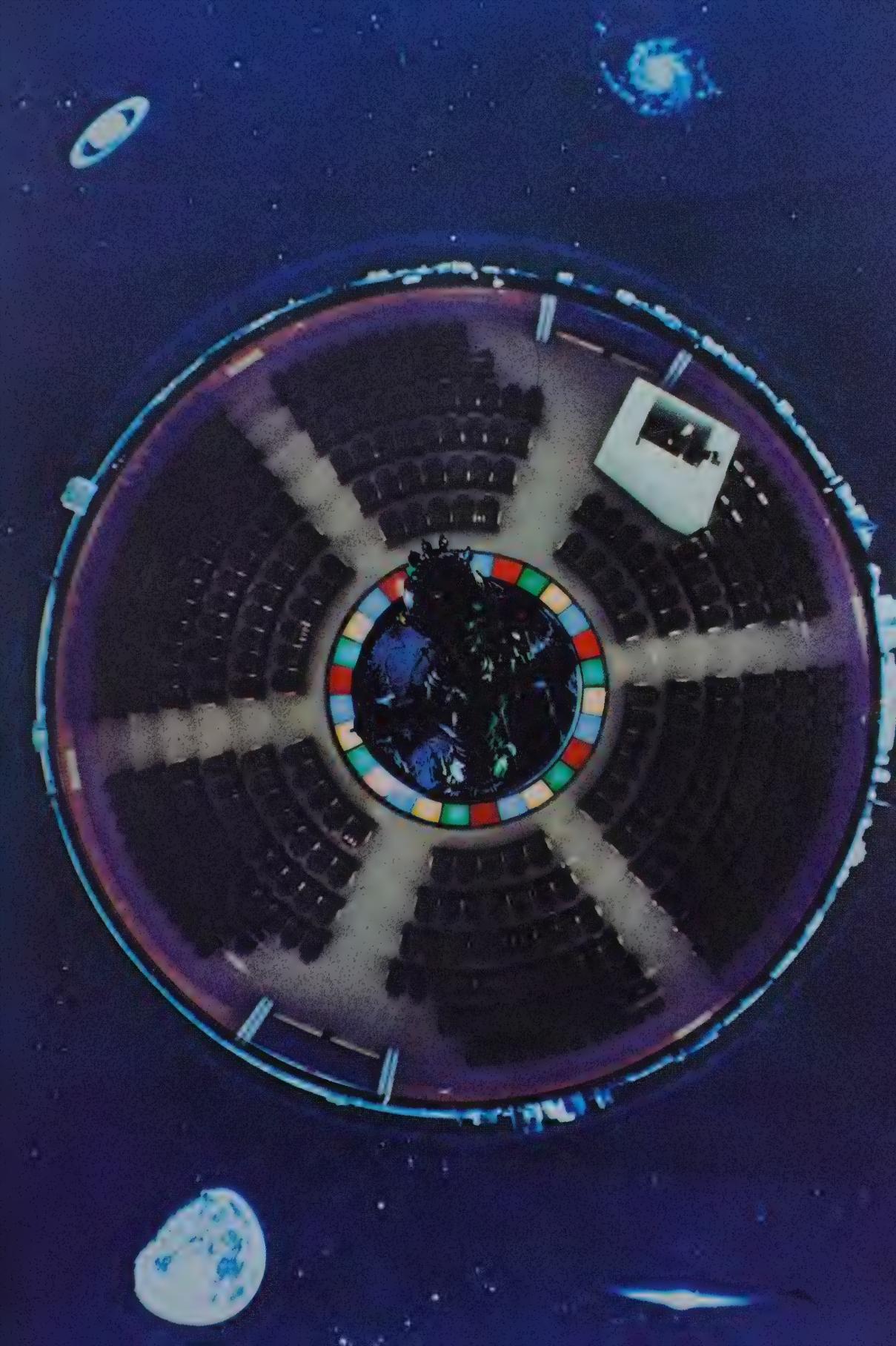
The Canadian Company also conducted a number of studies and investigations which included a detailed study of the operation of the Richard L. Hearn Generating Station of The Hydro-Electric Power Commission of Ontario in order to assist with the reduction of air pollution in the Metropolitan Toronto area. Another assignment authorized at year-end was an investigation of a nickel recovery development for The Patino Mining Corporation.

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC.

On October 1, 1968, Stone & Webster Service Corporation changed its name to Stone & Webster Management Consultants, Inc. The new name more accurately portrays the range of our management consulting capabilities. Stone & Webster Service Corporation, a new Massachusetts corporation, will continue to carry on the stock transfer work in Boston.

Management Consultants provides consulting services in such fields as acquisitions and mergers, joint ventures, financial and construction





planning, organizational and market studies, evaluating insurance programs, simplifying office procedures, automating accounting operations, tax matters, sales, public relations programs, personnel relations and labor negotiations, and computer systems and programing support.

The Corporation's services are widely used in business and industry, including public utility, transportation, pipeline, land development, banking, petroleum and manufacturing companies. Government agencies, both foreign and domestic, also use these services.

During 1968, Management Consultants supplied services to 111 clients, including 52 who received services under continuing contracts and the remainder under contracts for special assignments. Through a new advertising program the business community is being acquainted with the comprehensive nature of the management consulting services rendered.

Stone & Webster Overseas Consultants Inc., a subsidiary of Management Consultants, was active in Belgium, Bolivia, England, Spain and Turkey and, through its associated company, Stone & Webster Service Pty. Limited (Melbourne), in Australia. In Australia, its gas conversion work in Brisbane and Melbourne is scheduled for completion in 1969, while the work for Adelaide will extend into 1970. Meanwhile, other assignments are being sought. In Belgium, conversion work continued in Brussels with completion programed for 1970. In England, the Corporation continued its advisory services for gas conversion preparatory work for the Southeastern Gas Board and is now expanding its staff to assist with actual conversion operations, which are scheduled to start in May 1969. For Bolivia, the Corporation has been asked by the World Bank to participate in a study of the economic resources of that country, with particular emphasis on petroleum and natural gas.

STONE & WEBSTER SECURITIES CORPORATION

The acquisition of Hayden, Miller & Co., a recent and important development in the affairs of Stone & Webster Securities Corporation, is described on page 6 of this report. The volume of business in the security markets ran at a very heavy rate in 1968 with the exception of new issue industrial bonds which were down about 25% from 1967 levels. Tight money in the spring and at the end of the year coupled with gold and exchange crises at the same time upset the bond markets. In spite of this the Securities Corporation had a good year and maintained its major position in the underwriting area, both corporate and municipal.

The Securities Corporation acted as a manager or co-manager of offerings of corporate securities amounting to \$622,000,000, including approximately \$69,000,000 placed privately. Its 1968 participation in the underwriting and distributing of securities amounted to \$313,000,000.



Work continues on this two-unit nuclear power station being designed and constructed by Stone & Webster Engineering Corporation in Surry County, Virginia, for Virginia Electric and Power Company. Each unit, rated at 800,000 kilowatts, will be supplied by a pressurized water reactor. The first unit is scheduled for completion in 1971.

The Corporation continued to be active in the private placement field, in lease financing (including pioneering a lease program for nuclear fuel), and in negotiating mergers and acquisitions.

Commission and corporate trading business continued to increase. The Corporation has maintained for many years active primary trading markets in a number of unlisted securities and is active in trading blocks of securities of all types between institutional buyers and sellers. It originates and participates in secondary offerings of securities, and assists a number of substantial corporations in the anticipation of their sinking fund and maturity requirements by negotiating purchases and accumulating the securities needed. Listed commission stock business as well as over-the-counter common stock business, both backed up by expanded research, continued to grow in volume with institutional and individual customers. The Corporation is an associate member of the American Stock Exchange in New York and a member of the Midwest, Pacific Coast and Philadelphia-Baltimore-Washington Stock Exchanges.

INDUSTRIAL GAS SUPPLY CORPORATION

Industrial Gas Supply Corporation operates an intrastate gas pipeline system for the gathering, transmission and sale of natural gas, principally to industrial customers located in the area of the Houston, Texas, Ship Channel. Customers of the Company are engaged in the manufacture of refined petroleum products, chemicals, tools, cement,

Stone & Webster
Engineering Limited recently
completed this butadiene plant
located in Scotland for
BP Chemicals (U.K.) Limited



ceramics and other products, many of which are related to the oil and gas industry.

During 1968, Company-owned and controlled wells produced 9% of total gas sales of 39.5 billion cubic feet. In addition to gas sales, income was derived from the sale of distillate and crude oil produced from Company wells and natural gasoline recovered at the Company's extraction plant located in Needville, Texas.

During the year, the Company entered into a long-term contract for the purchase of a sizeable volume of gas. This contract increased Company-controlled reserves to an all-time high. The competition for new gas reserves has been keen and has caused an increase in the cost of purchased gas.

San Salvador Development Company, Inc., a subsidiary of Industrial Gas Supply Corporation, continues to receive, as its principal source of income, payments derived from the sale by the Company in 1962 of its major natural gas interest. Other mineral interests, producing as well as non-producing, the majority of which are situated in Texas, are held by the Company, but these are regarded as of lesser significance.

SPRUCE HILLS PRODUCTION COMPANY, INC.

Spruce Hills Production Company, Inc., owns oil and gas interests in Canada, principally in the Province of Alberta. During the year, company production increased as a result of larger government allowables and the development and unitization of the Ghost Pine Gas Field. Gross oil production for the year amounted to 210,000 barrels compared with 193,600 barrels in 1967. Gas production for the year was 377 million cubic feet compared with 102 million cubic feet in 1967.

The Company participated in the drilling of four wells during the year. Three of the wells were dry and one was completed as a gas well. A major oil company is now conducting seismic investigation on Spruce Hills acreage acquired during the year and has an option to drill on certain Company acreage. The Company also acquired through competitive bidding, interests in several tracts adjacent to the Mitsue oil field in Alberta, Canada. Evaluation of this acreage will commence in 1969.

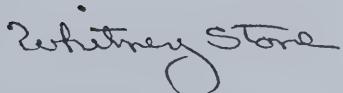
GENERAL

The Board of Directors elected Howard L. Clark, Chairman of the Board of American Express Co., as a Director of Stone & Webster, Incorporated in March 1968.

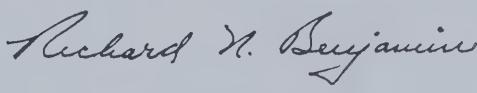
Stone & Webster continues to maintain its significant position in the areas of engineering, management services and finance. Stone & Webster is proud of the continuity of employment of its experienced executives and employees who often willingly place the interest of the job and Stone & Webster ahead of their personal and family interests. This has enabled the organization to maintain the high quality of its service to its clients over the years. As the volume and complexity of the business continues to grow, new young people continue to be added to the organization to enable us to deal with the added work and to take care of the exciting developments of today and tomorrow.

We look toward the future with great confidence.

By order of the Directors,



Chairman of the Board



President

ASSETS

| | December 31, 1968 | December 31, 1967 |
|--|-------------------|-------------------|
| Current Assets: | | |
| Cash | \$ 7,686,000 | \$ 9,559,000 |
| U. S. Government Securities and Bank Certificates of Deposit | 8,515,000 | 12,890,000 |
| Securities incident to investment banking business, at cost | 16,532,000 | 4,629,000 |
| <i>Total based on market quotations: \$16,945,000 at December 31, 1968 and \$4,925,000 at December 31, 1967.</i> | | |
| <i>Includes securities, carried at \$12,731,000 at December 31, 1968 and \$1,654,000 at December 31, 1967, pledged as collateral for bank loans.</i> | | |
| Accounts, Notes and Interest Receivable | 38,238,000 | 24,272,000 |
| <i>Includes \$30,848,000 at December 31, 1968 and \$17,607,000 at December 31, 1967 incident to the investment banking business.</i> | | |
| Unbilled Charges under Contracts | 3,656,000 | 5,276,000 |
| Materials and Supplies, at cost | 238,000 | 222,000 |
| Total Current Assets | 74,865,000 | 56,848,000 |
| Clients' Funds Held under Construction Contracts (per contra) | 798,000 | 807,000 |
| Investments in Unconsolidated Subsidiaries, at cost (Note A) | 567,000 | 567,000 |
| Other Investment Securities, at cost | 9,630,000 | 10,004,000 |
| <i>Total based on market quotations: \$98,692,000 at December 31, 1968 and \$88,913,000 at December 31, 1967 (no allowance made for taxes on unrealized appreciation).</i> | | |
| Long-Term Receivable, less amount included under Current Assets | 3,944,000 | 4,499,000 |
| <i>From sale of natural gas interest, due in varying amounts from 1970 to 1980.</i> | | |
| Natural Gas and Oil Properties and Other Mineral Interests | 11,630,000 | 11,862,000 |
| <i>At cost, less accumulated depreciation and depletion of \$8,402,000 at December 31, 1968 and \$8,078,000 at December 31, 1967.</i> | | |
| Cold Storage Plant and Equipment | 5,520,000 | 5,181,000 |
| <i>At cost, less accumulated depreciation of \$661,000 at December 31, 1968 and \$528,000 at December 31, 1967.</i> | | |
| Office Building and Other Real Estate | 3,226,000 | 3,292,000 |
| <i>At less than cost, less accumulated depreciation of \$4,220,000 at December 31, 1968 and \$4,066,000 at December 31, 1967.</i> | | |
| Furniture and Equipment | 1,300,000 | 1,152,000 |
| <i>At cost, less accumulated depreciation of \$2,121,000 at December 31, 1968 and \$1,860,000 at December 31, 1967.</i> | | |
| Prepayments and Deferred Charges | 2,013,000 | 1,605,000 |
| | \$113,493,000 | \$95,817,000 |

BALANCE SHEET

LIABILITIES AND CAPITAL

| | December 31, 1968 | December 31, 1967 |
|--|-------------------|-------------------|
| Current Liabilities: | | |
| Notes Payable (bank loans) | \$ 11,850,000 | \$ 1,400,000 |
| <i>Indebtedness of investment banking subsidiary, with securities pledged as collateral.</i> | | |
| Accounts Payable | 27,200,000 | 16,770,000 |
| <i>Includes \$25,182,000 at December 31, 1968 and \$12,499,000 at December 31, 1967 incident to the investment banking business.</i> | | |
| Dividends Declared | 1,887,000 | 1,825,000 |
| Advance Payments by Clients | 1,646,000 | 2,906,000 |
| Long-Term Debt (payments due within one year) | 165,000 | 161,000 |
| Provision for Federal, State and Other Taxes | 2,422,000 | 3,389,000 |
| Other Accrued Liabilities | 2,832,000 | 3,156,000 |
| Total Current Liabilities | 48,002,000 | 29,607,000 |
| Clients' Funds Held under Construction Contracts (per contra) | 798,000 | 807,000 |
| Long-Term Debt of Commercial Cold Storage, Inc. (a subsidiary), less amount shown under Current Liabilities | 1,629,000 | 1,794,000 |
| <i>Due in varying amounts from 1970 to 1978, and bearing interest at various rates.</i> | | |
| Deferred Profit | 4,412,000 | 4,956,000 |
| <i>From sale of natural gas interest, being taken into earnings on installment basis.</i> | | |
| Deferred Federal Taxes on Income | 1,318,000 | 1,268,000 |
| Capital Stock and Surplus: | | |
| Capital Stock, carried at | 6,778,000 | 6,607,000 |
| <i>Authorized, 5,000,000 shares of \$1 par value; issued, 4,287,402 shares at December 31, 1968 and 4,282,202 shares at December 31, 1967, including shares held in treasury. (Note B)</i> | | |
| Capital Surplus | 8,927,000 | 8,927,000 |
| Earned Surplus | 50,858,000 | 47,619,000 |
| | 66,563,000 | 63,153,000 |
| Less Treasury Stock, at cost | 9,229,000 | 5,768,000 |
| <i>314,566 shares at December 31, 1968 and 227,642 shares at December 31, 1967.</i> | | |
| Total Capital Stock and Surplus | 57,334,000 | 57,385,000 |
| | \$113,493,000 | \$95,817,000 |

See Notes to Financial Statements appearing on page 21.

STONE & WEBSTER, INCORPORATED AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

| | Year Ended December 31, 1968 | Year Ended December 31, 1967 |
|--|---------------------------------|---------------------------------|
| Gross Earnings: | | |
| Engineering and construction services (Note C) | \$21,232,000 | \$20,378,000 |
| Consulting and other services | 4,719,000 | 4,497,000 |
| Securities underwriting and trading, and other income incident to investment banking business | 7,361,000 | 7,400,000 |
| Natural gas and oil sales, profit and other income from mineral interests | 9,501,000 | 8,938,000 |
| Cold storage and related activities | 1,438,000 | 1,279,000 |
| Dividends and interest | 5,566,000 | 4,868,000 |
| <i>Includes dividends from unconsolidated subsidiaries (foreign):</i> <i>\$631,000 in 1968 and \$147,000 in 1967.</i> | | |
| Profits on investment securities | 660,000 | — |
| Rents | 1,240,000 | 1,007,000 |
| Other | 8,000 | 12,000 |
| Total | 51,725,000 | 48,379,000 |
| Operating and General Expenses | 32,152,000 | 28,807,000 |
| <i>Includes cost of gas purchased for resale of \$5,535,000 in 1968 and \$4,481,000 in 1967.</i> | | |
| Provision for Federal Taxes on Income | 4,884,000 | 5,594,000 |
| Other Taxes | 2,450,000 | 2,044,000 |
| Provision for Depreciation and Depletion (Note D) | 1,219,000 | 1,171,000 |
| Interest and Amortization of Debt Expense | 464,000 | 279,000 |
| Total | 41,169,000 | 37,895,000 |
| Income before extraordinary item (per share: \$2.63 in 1968; \$2.56 in 1967) | 10,556,000 | 10,484,000 |
| Gain on cash portion of liquidating dividend on investment (per share: 16¢) | — | 646,000 |
| <i>After deduction of related taxes of \$213,000.</i> | | |
| Net Income (per share: \$2.63 in 1968; \$2.72 in 1967) | 10,556,000 | 11,130,000 |
| Earned Surplus at beginning of year | 47,619,000 | 42,903,000 |
| Total | 58,175,000 | 54,033,000 |
| Dividends Declared | 7,317,000 | 6,414,000 |
| <i>Per share:</i> <i>1968: 45¢ each paid on May 1, August 1 and November 1, 1968; 47½¢ payable on February 1, 1969.</i> <i>1967: 37½¢ each paid on May 1, August 1 and November 1, 1967; 45¢ paid on February 1, 1968.</i> | | |
| Earned Surplus at end of year | \$50,858,000 | \$47,619,000 |

NOTES TO FINANCIAL STATEMENTS

(A) The consolidated financial statements include the accounts of subsidiaries of Stone & Webster, Incorporated, other than foreign subsidiaries and certain subsidiaries organized for foreign activities. The net assets applicable to the investments in the unconsolidated subsidiaries, as shown by their balance sheets, exceeded the aggregate amount at which such investments are carried by approximately \$1,095,000 at December 31, 1968 (\$990,000 at December 31, 1967), based on appropriate rates of exchange where foreign currencies are involved. Such excess represents undistributed earnings of the unconsolidated subsidiaries since acquisition.

(B) Under the Stock Option Plan for certain officers and employees of the Corporation and its subsidiaries which was approved by the stockholders in 1958, the period for the granting of options expired in 1965. During 1968 options previously granted covering a total of 1,600 shares expired, and options in respect of a total of 5,200 shares were exercised at prices of \$32.72 and \$33.25 per share. At the year-end, options covering 3,900 shares were outstanding at a price of \$33.25 per share as compared with outstanding options covering 10,700 shares at the beginning of the year at prices of \$32.72 and \$33.25 per share. Of the options outstanding at the year-end, those as to 2,900 shares were then exercisable.

The Corporation purchased 86,924 shares of its Capital Stock for a total cost of \$3,460,394 in 1968 and 66,200 shares at a cost of \$2,008,692 in 1967. These shares were added to the Corporation's holdings of treasury stock for possible acquisitions and for other corporate purposes. The Corporation has continued and may continue, from time to time, to purchase additional shares of its Capital Stock on the New York Stock Exchange or otherwise.

(C) Gross earnings from engineering and construction services include, generally on a percentage of completion basis, fees earned on agency contracts and the excess of revenues (\$14,654,000 in 1968 and \$52,055,000 in 1967) over direct construction costs (\$11,308,000 in 1968 and \$47,484,000 in 1967) on non-agency contracts. Such revenues and costs are exclusive of expenditures made directly by clients.

(D) Depreciation generally is provided on a straight-line basis at rates adequate to depreciate the applicable assets over their estimated useful lives. Depreciation expense for 1968 was \$1,020,000 and \$961,000 for 1967. At December 31, 1968 depreciable assets were carried at \$15,672,000 after deducting accumulated depreciation.

(E) The Corporation and its principal subsidiaries, the accounts of which are included in the consolidated financial statements, have a retirement plan covering executive, administrative, technical and clerical employees. Total retirement expense for 1968 was \$1,213,000, as compared with \$1,057,000 for 1967. Retirement expense in both years was funded by contributions to the trust fund under the plan. Said amounts include amortization for the respective years of the unfunded balance of prior service cost as of January 1, 1967 over a period of 20 years.

(F) Subsidiary companies are committed for annual rentals approximating \$1,450,000 under long-term leases, the longest of which extends to 1995.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

*To the Board of Directors of
Stone & Webster, Incorporated:*

We have examined the consolidated balance sheet of STONE & WEBSTER, INCORPORATED and Consolidated Subsidiaries as of December 31, 1968 and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Corporation for the year 1967.

In our opinion, the financial statements mentioned above present fairly the consolidated financial position of Stone & Webster, Incorporated and consolidated subsidiaries at December 31, 1968 and 1967, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 18, 1969

STONE & WEBSTER, INCORPORATED AND CONSOLIDATED SUBSIDIARIES

| | 1968 | 1967 | 1966 |
|---|---------------|--------------|--------------|
| Gross Earnings: | | | |
| Engineering and construction services | \$ 21,232,000 | \$20,378,000 | \$18,734,000 |
| Consulting and other services | 4,719,000 | 4,497,000 | 4,012,000 |
| Securities underwriting and trading, and other income incident to investment banking business | 7,361,000 | 7,400,000 | 4,201,000 |
| Natural gas and oil sales, profit and other income from mineral interests | 9,501,000 | 8,938,000 | 9,040,000 |
| Cold storage and related activities | 1,438,000 | 1,279,000 | 1,012,000 |
| Dividends and interest | 5,566,000 | 4,868,000 | 5,058,000 |
| Profits on investment securities | 660,000 | — | — |
| Rents | 1,240,000 | 1,007,000 | 928,000 |
| Other | 8,000 | 12,000 | 45,000 |
| Total | 51,725,000 | 48,379,000 | 43,030,000 |
| Operating and General Expenses | 32,152,000 | 28,807,000 | 25,762,000 |
| Provision for Federal Taxes on Income | 4,884,000 | 5,594,000 | 4,679,000 |
| Other Taxes | 2,450,000 | 2,044,000 | 1,545,000 |
| Provision for Depreciation and Depletion | 1,219,000 | 1,171,000 | 1,104,000 |
| Interest and Amortization of Debt Expense | 464,000 | 279,000 | 227,000 |
| Total | 41,169,000 | 37,895,000 | 33,317,000 |
| Income before extraordinary items | 10,556,000 | 10,484,000 | 9,713,000 |
| Extraordinary items | — | 646,000 | — |
| Net Income | \$ 10,556,000 | \$11,130,000 | \$ 9,713,000 |
| Dividends paid | \$ 7,255,000 | \$ 7,164,000 | \$ 7,216,000 |
| Dividends paid per share (Note) | \$1.80 | \$1.75 | \$1.75 |
| Earnings per share (Note): | | | |
| Income before extraordinary items | 2.63 | 2.56 | 2.36 |
| Extraordinary items | — | .16 | — |
| Net Income | 2.63 | 2.72 | 2.36 |
| Summary of Balance Sheet at End of Year: | | | |
| Current Assets | \$ 74,865,000 | \$56,848,000 | \$49,002,000 |
| Investment Securities (including Investments in Unconsolidated Subsidiaries) | 10,197,000 | 10,571,000 | 10,686,000 |
| Long-Term Receivable, less amount included under Current Assets | 3,944,000 | 4,499,000 | 5,054,000 |
| Natural Gas and Oil Properties and Other Mineral Interests | 11,630,000 | 11,862,000 | 11,636,000 |
| Cold Storage Plant and Equipment | 5,520,000 | 5,181,000 | 4,705,000 |
| Office Buildings and Other Real Estate | 3,226,000 | 3,292,000 | 3,266,000 |
| Other assets and deferred charges | 4,111,000 | 3,564,000 | 3,516,000 |
| Total Assets | \$113,493,000 | \$95,817,000 | \$87,865,000 |
| Current Liabilities | \$ 48,002,000 | \$29,607,000 | \$23,557,000 |
| Long-Term Debt, less amount shown under Current Liabilities | 1,629,000 | 1,794,000 | 2,155,000 |
| Other liabilities, deferred taxes and sundry credits | 2,116,000 | 2,075,000 | 1,993,000 |
| Deferred Profit | 4,412,000 | 4,956,000 | 5,501,000 |
| Capital Stock and Surplus: | | | |
| Capital Stock, carried at | 6,778,000 | 6,607,000 | 6,588,000 |
| Capital Surplus | 8,927,000 | 8,927,000 | 8,927,000 |
| Earned Surplus | 50,858,000 | 47,619,000 | 42,903,000 |
| Less Treasury Stock, at cost | 9,229,000 | 5,768,000 | 3,759,000 |
| Total Capital Stock and Surplus | 57,334,000 | 57,385,000 | 54,659,000 |
| Total Liabilities and Capital | \$113,493,000 | \$95,817,000 | \$87,865,000 |

Note: Per share figures prior to 1967 have been restated to reflect the two-for-one stock split in December 1967.

TEN-YEAR STATISTICAL INFORMATION

| 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| \$17,945,000 4,444,000 | \$14,990,000 4,182,000 | \$12,787,000 3,778,000 | \$ 9,492,000 3,838,000 | \$11,703,000 4,091,000 | \$11,531,000 4,021,000 | \$14,753,000 3,959,000 |
| 3,750,000 | 3,421,000 | 4,248,000 | 3,428,000 | 4,147,000 | 3,681,000 | 3,652,000 |
| 9,116,000 | 8,912,000 | 9,062,000 | 9,550,000 | 9,278,000 | 8,931,000 | 9,009,000 |
| 842,000 | 751,000 | 427,000 | — | — | — | — |
| 4,640,000 | 3,905,000 | 3,627,000 | 3,559,000 | 4,021,000 | 4,021,000 | 4,190,000 |
| — | 240,000 | — | 444,000 | — | 71,000 | — |
| 994,000 | 995,000 | 990,000 | 920,000 | 886,000 | 847,000 | 826,000 |
| 43,000 | 12,000 | 18,000 | 13,000 | 13,000 | 25,000 | 22,000 |
| 41,774,000 | 37,408,000 | 34,937,000 | 31,244,000 | 34,139,000 | 33,128,000 | 36,411,000 |
| 23,527,000 | 21,759,000 | 20,743,000 | 19,699,000 | 19,859,000 | 19,548,000 | 18,377,000 |
| 4,931,000 | 4,325,000 | 4,255,000 | 2,714,000 | 3,757,000 | 3,496,000 | 5,799,000 |
| 1,796,000 | 1,795,000 | 1,672,000 | 1,586,000 | 1,849,000 | 1,758,000 | 2,033,000 |
| 924,000 | 887,000 | 1,034,000 | 910,000 | 883,000 | 930,000 | 985,000 |
| 343,000 | 214,000 | 137,000 | 36,000 | 47,000 | 9,000 | 29,000 |
| 31,521,000 | 28,980,000 | 27,841,000 | 24,945,000 | 26,395,000 | 25,741,000 | 27,223,000 |
| 10,253,000 | 8,428,000 | 7,096,000 | 6,299,000 | 7,744,000 | 7,387,000 | 9,188,000 |
| 717,000 | — | — | — | — | — | — |
| \$10,970,000 | \$ 8,428,000 | \$ 7,096,000 | \$ 6,299,000 | \$ 7,744,000 | \$ 7,387,000 | \$ 9,188,000 |
| \$ 6,730,000 | \$ 6,199,000 | \$ 6,178,000 | \$ 6,212,000 | \$ 6,229,000 | \$ 6,207,000 | \$ 6,194,000 |
| \$1.62½ | \$1.50 | \$1.50 | \$1.50 | \$1.50 | \$1.50 | \$1.50 |
| 2.48 | 2.04 | 1.73 | 1.52 | 1.87 | 1.79 | 2.23 |
| .17 | — | — | — | — | — | — |
| 2.65 | 2.04 | 1.73 | 1.52 | 1.87 | 1.79 | 2.23 |
| \$50,281,000 | \$38,489,000 | \$35,154,000 | \$33,667,000 | \$34,510,000 | \$30,935,000 | \$33,416,000 |
| 10,500,000 | 9,939,000 | 9,818,000 | 9,819,000 | 9,764,000 | 10,120,000 | 9,038,000 |
| 5,610,000 | 6,165,000 | 6,781,000 | 7,398,000 | — | — | — |
| 11,677,000 | 10,810,000 | 10,472,000 | 11,046,000 | 11,626,000 | 11,904,000 | 10,769,000 |
| 4,504,000 | 4,564,000 | 4,049,000 | — | — | — | — |
| 3,223,000 | 4,360,000 | 4,302,000 | 4,325,000 | 4,085,000 | 3,912,000 | 3,562,000 |
| 2,882,000 | 1,930,000 | 1,624,000 | 1,641,000 | 1,711,000 | 3,491,000 | 2,167,000 |
| \$88,677,000 | \$76,257,000 | \$72,200,000 | \$67,896,000 | \$61,696,000 | \$60,362,000 | \$58,952,000 |
| \$25,985,000 | \$16,662,000 | \$14,158,000 | \$13,382,000 | \$12,470,000 | \$11,064,000 | \$12,356,000 |
| 2,312,000 | 2,465,000 | 2,517,000 | — | — | — | — |
| 1,339,000 | 1,321,000 | 1,070,000 | 610,000 | 408,000 | 2,356,000 | 996,000 |
| 6,045,000 | 6,650,000 | 7,255,000 | 7,859,000 | — | — | — |
| 6,481,000 | 6,363,000 | 6,111,000 | 5,870,000 | 5,746,000 | 5,385,000 | 5,223,000 |
| 8,927,000 | 8,927,000 | 8,927,000 | 8,927,000 | 8,927,000 | 8,927,000 | 8,927,000 |
| 40,391,000 | 36,672,000 | 34,965,000 | 34,051,000 | 35,507,000 | 33,992,000 | 32,812,000 |
| 55,799,000 | 51,962,000 | 50,003,000 | 48,848,000 | 50,180,000 | 48,304,000 | 46,962,000 |
| 2,803,000 | 2,803,000 | 2,803,000 | 2,803,000 | 1,362,000 | 1,362,000 | 1,362,000 |
| 52,996,000 | 49,159,000 | 47,200,000 | 46,045,000 | 48,818,000 | 46,942,000 | 45,600,000 |
| \$88,677,000 | \$76,257,000 | \$72,200,000 | \$67,896,000 | \$61,696,000 | \$60,362,000 | \$58,952,000 |

THE STONE & WEBSTER ORGANIZATION

Listed below, with an outline of their major activities, are the principal corporate components of the Stone & Webster organization. The subsidiaries listed are 100 per cent owned.

STONE & WEBSTER, INCORPORATED is principally engaged in the coordination of the activities and policies of its subsidiaries. It also owns certain interests, chiefly in the natural gas industry, and is prepared to participate in promising enterprises which may not be in a position to obtain public financing.

STONE & WEBSTER ENGINEERING CORPORATION furnishes complete design and construction services for power and industrial projects, and through its Process Industries Group to companies in the petroleum, chemical, paper and pharmaceutical fields. It also constructs from plans developed by others, makes engineering reports, business examinations and appraisals, and undertakes consulting engineering work.

STONE & WEBSTER ENGINEERING LIMITED, with offices at 20, Red Lion Street, London W.C.1, furnishes design and construction services, particularly for petroleum and chemical companies in Great Britain, Europe, the Middle East and Australia, in association with Stone & Webster Engineering (Holland) N.V. (Amsterdam), Stone & Webster Engineering S.A. (Paris), Stone & Webster Engineering Pty. Limited (Sydney, New South Wales) and Stone & Webster Engineering A.B. (Sweden).

STONE & WEBSTER MANAGEMENT CONSULTANTS, INC. supplies comprehensive management consulting services for business and industry, including public utility, transportation, pipeline, land development, banking, petroleum and manufacturing companies. Government agencies, foreign and domestic, also use these services. Foreign assignments are conducted by Stone & Webster Overseas Consultants Inc. and Stone & Webster Service Pty. Limited (Melbourne). A subsidiary, Stone & Webster Service Corporation, offers services as stock transfer and dividend disbursing agent.

STONE & WEBSTER SECURITIES CORPORATION furnishes comprehensive financial services to issuers of securities and to investors; underwriting and distributing, at wholesale and at retail, corporate, government and municipal bonds, as well as preferred and common stocks. It also handles orders in issues traded on all stock exchanges and in the over-the-counter market.

STONE & WEBSTER CANADA LIMITED, with headquarters office at 60 Adelaide Street East, Toronto 1, offers to Canadian industry the services of the entire Stone & Webster organization with particular emphasis on design and construction, reports, appraisals, surveys and general advisory services. Design and construction services in the mining and metallurgical fields are furnished to clients both within and outside of Canada.

INDUSTRIAL GAS SUPPLY CORPORATION is engaged in the business of producing, purchasing and transporting natural gas and distributing the same at wholesale and to large industrial users in Houston, Texas, and vicinity.

SAN SALVADOR DEVELOPMENT COMPANY, INC. owns natural gas and other mineral interests, principally in Texas.

SPRUCE HILLS PRODUCTION COMPANY, INC. owns oil and natural gas interests in Canada, principally in the Province of Alberta.

COMMERCIAL COLD STORAGE, INC. is engaged in modern cold storage warehousing and offers blast-freeze and a wide variety of other refrigeration services in the Metropolitan Atlanta area of Georgia to food-processors and others.

THE STONE & WEBSTER BUILDING, INCORPORATED operates, for Stone & Webster, Incorporated, the Stone & Webster building located at 90 Broad Street, New York, N. Y. Approximately 30% of the available space is occupied by the Stone & Webster organization, and the balance is rented to others.

